



Commentary: NCM Income Growth Class

On March 4, 2024, Portfolio Manager Alex Sasso, CFA shared the latest portfolio metrics for NCM Income Growth Class and highlighted one of the fund's most promising new holdings.

TRANSCRIPT:

Hi, everybody. It's Alex Sasso here. Today is Monday, March 4th, 2024. And I'm here talking to you about the NCM Income Growth Class. The fund has 31 equity holdings, 16 fixed income holdings. 81.3% of the portfolio is invested in equities. We've got just over 10% invested in fixed income. We're running about 8% cash right now in the fund.

I wanted to give you guys some numbers here. It's my favourite thing to do. So when we look at valuation, the 2025 price earnings ratio of the long positions are 12.5x versus 17x for the S&P TSX composite. Price to cash flow of 7x versus 16x for the benchmark. Our forward enterprise value to EBITDA is 9x versus 15.9x for the S&P TSX composite.

And the free cash flow yield is 9% versus 5%, so significantly better than the benchmark in terms of valuation and free cash flow yield. When we look at revenue growth and earnings growth, the fund looks really good here as well.

One year earnings growth of 25.9%, one year revenue growth of 6.4%. We don't have comps for the TSX Composite Index. But we do for the three year, earnings and revenue numbers. So the three year revenue number of 29% versus 16% and the three year earnings per share growth number of 35% versus 10%. So you're getting significantly better growth at a better valuation.

And then if we look at the dividend yield, the fund pays over a 4% dividend yield, TSX as you guys know, is 3.3%. And the payout ratio of 55% is kind of right in line with our long term average of around 50%. And the expected dividend per share growth rate is 19.4%. The benchmark is 5.5%. So these strong free cash flow numbers are enabling these management teams to increase their dividend at a much faster rate than the overall market. So we really like that, we think that that will power the outperformance over the next few business cycles.

I'll transition here. Maybe I'll talk about a new name in the fund. So, a company that we've recently added is a company called Black Diamond. Black Diamond Group. What do they do? They rent and sell workforce and student accommodations. They do so in Canada, the US and Australia.

It's about a half-billion market cap, so relatively small. But what we like about it is that more than 25% or a quarter of the business is owned by insiders of the company. Really strong return on assets, really strong return on invested capital.

Its historic return on assets is around 12% over the last five years, we've seen that really ramp up in the past year. And that's a function of increasing utilization.

So you think of hotel rooms and the more utilization you can push through a hotel room, the more you increase your return on invested capital and your return on assets. So, we like it. And, you know, just drilling down on that a little bit more. If you think of the utilization. So let's say they utilize these camps at a 75% utilization rate. Well, that equates to about a 15% return on the investment on that camp. Now, that's pretty good. When interest rates are 5%, you're making a pretty good spread there.

Now, imagine if you can take that utilization from 75% to 85%, which is what they've been able to do over the last little while, but the lifetime return on that asset jumped significantly. And on an annualized basis, it jumps to about 17%. So these assets last for, you know, north of 30 years, if you can take care of them, and the payback is typically about five years. So we really like the economics of the business. For them, it's about growing and expanding. They generate a lot of free cash flow.

So, you know, if you know the name, you might have argued that it's a debt heavy name. They've done a lot of acquisitions recently, but because of the strong free cash flow, they've been able to pay down the debt pretty aggressively. It's now sub-two times leverage, which is kind of management's sweet spot, and what it means going forward is that all that free cash flow may go to increasing the dividend in the near future. So we're quite excited about the name.

So that's it for me today. If you'd like any additional information, please call your regional NCM salesperson at sales@ncminvestments.com.



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